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EU Development Policy And The Promotion Of The Financial Sector

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EU Development Policy and the Promotion of the Financial Sector

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Abstract: This paper assesses the Aid policy of the European Union. It highlights how this EU Aid provision has been intertwined with the process of financialisation in two main ways. Firstly, a non-negligible proportion of Aid flows are linked to the promotion of private sector, for-profit activities, which very often include the development of the financial sector in developing countries. Secondly, the provision of Aid itself has become closely linked to the financial sector through the process of "blending", which effectively increases the Aid budget by means of leveraging. These two aspects highlight how even cooperation policies with developing nations cannot be considered immune to the process of financialisation.

Key words: EU, Aid, blending finance

Journal of Economic Literature classification F35, O19

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Introduction

The policy consensus around the delivery of aid has long been intertwined with the more general debate about economic and social development. One of the most debated topics in the literature over the past two decades has been the relationship between financial and economic development. The conventional starting points of this literature are McKinnon's (1973) and Shaw's (1973) arguments against financial 'repression' in developing countries, seeing it as a key impediment to development. These arguments were quickly incorporated into the 'Washington consensus' and, indeed, financial liberalisation policies became common into the structural adjustment reform packages. However the mixed success of the actual experiences with liberalisation (Dornbusch and Reynoso, 1989), including the early financial crises in developing countries (Diaz-Alejandro, 1985), was coupled with theoretical challenges. The mechanics of financial markets were questioned by market imperfection hypotheses (Stiglitz and Weiss, 1981; Stiglitz, 1994; Stiglitz, 2000), which posed a threat to the basic relationship between finance and economic development. Stiglitz (1994) in particular forcefully argued that asymmetric information problems are inherent to financial markets, and that liberalisation may exacerbate rather than solve them, thus maintaining that state intervention is essential to well-functioning markets. As a result, the financial liberalisation literature began morphing into one in which the benefits of financial liberalisation would only occur with a few provisos. The notions of gradual opening up and of sequencing entered as prerequisites needed to fully reap the benefits of liberalisation (World Bank, 1991).

The resulting emphasis on the institutional aspects of financial systems was much in line with the general propositions about economic development. By 1990 the Washington Consensus was already morphing into the nascent Post-Washington consensus, with the influential paper by the World Bank (Corden et al., 1993) which emphasized the role of the state in accomplishing the 'Asian miracle'. The view that the state's role is to foster the development of the market was central to the emergence of the good governance agenda that characterised the trajectory of development policy. The 'sequencing' approach to financial liberalisation clearly echoes these post-Washington views.

Even more fundamental was the emergence of the concept of 'financial development'. This literature developed a new paradigm about the finance-growth nexus, seeking to overcome previously highlighted flaws and positing a more definitive case for the role of the financial sector in fostering economic development. This literature firstly focused on showing the empirical relevance of the link between financial sector development and economic growth (King and Levine, 1993), where more finance – typically measured as credit or the size of the banking sector as a proportion of GDP – is associated with higher growth rates. Subsequent works (Pagano, 1993; Levine, 1997) further establishes the theoretical background of the 'financial development' concept, by pointing out the key functions that the financial sector had in the economy. It is argued that a more developed financial sector can perform such functions more efficiently, and better overcomes the informational asymmetries that may otherwise be pervasive in financial 'backwards' countries. Indeed, such functions could even have wider welfare effects than just economic growth: finance was linked to poverty reduction and lowering income inequality (Honohan, 2004; Dehejia and Gatti, 2005; Beck et al., 2007). The key was therefore to ensure financial development could be accessed by all parts of society, shifting the focus to 'access to finance'. Other policies could in fact become justifiable insofar as they increased 'financial development': for example, capital account liberalisation was to be pursued for the 'collateral benefits' it could give a country, including the development of the financial sector (Kose et al., 2006).

Once again, these academic developments were in line with the direction of the IFI's policy consensus, which was increasingly focusing on poverty reduction. The importance of financial development for something wider than simple GDP growth fit well into the new consensus arising around the Millennium development goals. At one critical end of the debate, it was argued that poverty and welfare issues were being used as pretexts to deepen the pro-market policy agenda (Öniș and Şenses, 2003). For example, the resignation of the chairman of the team preparing the World Bank's World Development Report on poverty in 2000, Ravi Kanbur, who presented a broader understanding of poverty linked to global structural unequal relations, could be seen as an intolerance towards alternative poverty-

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reduction proposals that were not free-market oriented. In any case the 'financial development' consensus remained prominent during the 2000s.

In the aftermath of the global financial crisis, some authors renewed[1] concerns about the 'financial development story', arguing that 'too much finance' is harmful to economic growth, regardless of any other institutional quality issue (Berkes et al., 2012; Law and Singh, 2014). Additionally, the emerging literature on financialisation in developing countries (see Bonizzi, 2013 for a survey), which has gained momentum after the crisis, has presented theoretical arguments and empirical evidence of how over-rapid expansion of the financial sector in developing counties may be harmful to their long-run developmental goals. Despite these claims, the consensus remains relatively strong, with current papers claiming that the growth of the financial sector is conducive to economic growth in developing countries (Beck et al., 2014). In sum, although the academic discussions have long raised concerns, the policy proposals have been hardly changing[2].

In light of these considerations, this paper aims to explore to which extent the 'pro-finance' arguments about economic development have affected overseas-development aid (ODA) provision in general, and the EU aid policies in particular. It is argued that the importance of finance within the EU aid policies can be traced on two levels. Firstly, an important and growing part of the EU ODA is directed at the promotion of the development of the financial sector in developing countries. As it will be shown, this is particularly the case of aid directly channelled by EU-level institutions. Secondly, the provision and funding of aid has become more closely associated with the private financial sectors. In this respect we will look at how the EU development policy, in line with the global focus on innovative techniques of aid provision, is pioneering the notion of 'blended finance', which rests on using public ODA funds to leverage private funds and on developing broader types of public-private partnerships. Although this is not a new practice, the emphasis on it is significantly greater than previously.

[1] Similar arguments were in fact made a decade before (Arestis and Demetriades, 1997; Demetriades and Hussein, 1996).

[2] See Sawyer (2014) for an overview of this topic and Bonizzi (2013) for an overview of the specific application of these themes to developing and emerging economies.

The evidence presented could be interpreted as a sign of 'financialisation' of EU aid policies and, more specifically, fits into the broader discussion of how finance increasingly affects the institutions governing economic and social policies (Fine, 2012). However the contribution of this paper remains primarily empirical.

The paper is organised as follows. Section 1 frames the argument within the global debate on aid provision and its links to the global trajectory which emphasizes the need to innovate new financial instruments and techniques in order to pool public and private funds together. Section 2 presents the general framework of EU development policy. Section 3 shows the actual mechanisms and regional distribution of aid delivery by EU institutions and member states. Section 4 discusses the distribution of aid by recipient sector, highlighting the importance of the financial sector. Section 5 deals with the growing involvement of private financial institutions in aid provisioning, particularly referring to the phenomenon of 'blending' private and public funds.

1 The global discussion on Financing for Development

The discussion around financial flows in relation to development policy is rapidly being reshaped by several new developments. The deadline for the achievement of the Millennium Development Goals (MDGs), which had created a common trajectory across international development policy and practice, is drawing closer. Eight specific goals had been agreed in year 2000 at the UN Millenium summit that the international development community could focus on achieving by 2015. This time has now come, and together with the evaluation and assessment of the successes and failures in meeting the MDGs, the international development community is currently engaged in a process of trying to re-state its common trajectory. A recent milestone of this process has been set in 2012 by the UN Conference on Sustainable Development Rio+20, which broadly agreed the new Sustainable Development Goals (SDGs), a significant broadening out of the MDGs. These processes establish the next set of concrete development goals that will be agreed by the international development community. This enlargement of goals means that poverty eradication, which had previously defined the core of the MDGs is now augmented by broader economic, social and environmental goals which are seen as crucial in order to achieve the stated aim of poverty eradication.

The changing landscape of international development policy formation and practice can be seen by retracing the early days of the MDG process. In 1990, when the UNDP released the first Human Development report, it was seen as offering a counter-weight to the content of international development as seen in the Structural Adjustment Policies that were blindly pursued by the IFIs at the time. Part of the UN process was that by the mid-1990s it was possible to identify a focal point of international development cooperation: poverty reduction and eradication had emerged from the UN process as a key goal, and by the year 2000 positions related to this crystallized around the eight MDGs. Twenty-five years later, the newly set SDGs are significantly broader, and indicate the confluence of global development policies since the early 1990s. What had stood as an antipode to the IFIs has now converged, and it is with this in mind that we examine the current financialisation of the EU development policy.

The process of realigning and recreating shared aims across the international development institutions has been accompanied by the parallel and complementary discussion about how a comprehensive financing framework will make the achievement of the new aims possible. It is within this changing context that member states, development agencies, the UN processes and international financial institutions are engaging in a discussion that seeks to address how the newly agreed development goals will be financed. The key summit that will lay this new financing framework is the third international conference on Financing for Development, to be held in Addis Ababa in July 2015.

This international discussion regarding how development should be financed had its first Financing for Development conference in Monterrey in 2002, which laid out the Monterrey Consensus. The progress of this process was discussed in Doha in 2008 at the second international conference for Financing for Development. The agreement that forms the basis for the upcoming Financing for Development conference is to integrate and make use of all forms of financing to bring about development (whatever this may be), be it private, public, domestic, or international financing, as well as integrating all groups in society to achieve this, be it civil society or business groups.

The international discussion which is currently underway in all the major international development institutions surrounding how to refocus the common goals for international cooperation in development and the corollary discussion on how to finance the achievement of these common goals, all emphasize and focus on the role of private financial flows in bringing about developmental goals. Poverty eradication, although part of the new SDGs has been augmented by several broader aims. In the high level policy circles, mobilising private cross border financial flows is seen as crucial in bringing about eradication of poverty, as well as in financing the broader set SDGs. In some respect, and as will be argued further on, mobilising private cross border financial flows and financial deepening have become developmental ends in and of themselves. The lack of access to capital markets that most low income countries face, and the vast amounts of funds managed by institutional investors are seen, for example, as needing to be bridged so that developing countries can better access these latent funds that could catalyse development. The rhetoric regarding development becomes a simplified application of increasing private sector flows and overcoming the barriers that have been holding back investments. In particular, the flows to banking and financial sectors are seen as an integral and increasingly dominant aspect of policy and practice.

There has also been a growing frustration towards the ability and effectiveness of international public financial flows (which largely consist of bilateral or multilateral ODA) in bringing about developmental outcomes. Such frustrations lead to the reiteration of the quantitative issue about the perennially agreed commitments of aid, which are never fully met, as well as raising more qualitative concerns surrounding the effectiveness of aid. This led to policy meetings, such as the High Level Forum on Aid Effectiveness in Busan in 2011, which established the Global Partnership for Effective Development Cooperation (GPEDC).

In the rest of this paper we will trace indications that the EU has placed financial deepening at the heart of its development policy. Furthermore, the Development Finance Initiatives, state-funded financing bodies of EU member states with a development mandate, will also be examined.

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2 The EU's development policy

The European Commission department EuropeAid - Development and Cooperation (DEVCO) is responsible for formulating the EU development policy and delivering aid to developing countries. An original commitment for aid[3] budgets to reach 0.7% of GNI was made in 1970 at the UN General Assembly, and the EU member states subscribed to this, albeit with significant shortfalls.

DEVCO coordinates with the other policy offices concerning the EU's external relations such as the European External Action Service (EEAS) and the Foreign Affairs Council. Thus aid policies are conducted in coordination with these two other EU bodies. Indicative of the trends of the time are that two other major donors have merged their long standing independent aid agencies with their Foreign Affairs offices, Canada in 2013, followed shortly after by Australia in 2014.

The evolution of EU development policy can be traced over the course of the following key policy milestones. The EU Consensus on Development of 2005 is a policy commitment by the Commission, the Council, the Parliament and the member states to agree on development objectives. In 2011 the EU wide development policy was reformulated under the Agenda for Change statement, which introduced new elements into EU development policy. A decent life for all in 2013 summarised the EU's position in relation to the next steps of the SDGs being set out. In line with the global direction that the laying out of the new SDGs has taken, there is a significantly broader set of development goals from the MDGs being discussed.

[3] It is important to note that the terms commonly used in the EU policy documents discussing aid often refer to external assistance as well as development cooperation, which in themselves do not make clear if they fulfil the ODA criteria. The traditional and common meaning of aid stems from the OECD DAC members definition of 1969, revised in 1972, in which aid, Official Development Assistance (ODA) are any funds which have a grant element of at least 25% which are aimed for developing countries and / or to any multilateral institutions which would promote welfare or economic development in the recipient country. However, Other Official Flows (OFA) relates to funds which do not meet ODA criteria, yet can be utilised within the framework of development.

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A cursory assessment of the changing priorities in EU development policy can be summarised in the following table:

Word or phrase	Consensus on Development 2005	Agenda for Change 2011	Decent Life for all 2013
Pages length excluding annexes	19	12	14
Private	6	12	8
Business	1	7	3
Innovat*	3	3	4
Financ*	22	17	14
Blend	0	3	1
Ownership	14	3	2
Budget support	13	3	0
Poverty	46	17	45
Inequal*	5	3	7
Hunger	1	0	2
HIV or Aids	9	0	3
Competit*	2	2	1
Invest*	10	12	9
Debt	5	0	0
Aid	53	26	5

Source: Authors' calculations.

In more detail, the policy commitments for each milestone are:

Consensus on Development

- Achieve the MDGs by 2015 and renew the commitment to raise Official Development Assistance to 0.7 % of GNI by 2015.
- Consider further debt relief and innovative sources of finance as a way to increase the available resources in a sustainable and predictable way.
- Use general or sectoral budget support in order to: strengthen ownership, support partner's national accountability and procedures, finance national poverty reduction strategies (such as operating costs of health and education budgets) and also to promote transparent management of public finances.
- The implementation of Community aid is increasingly being carried out by the EIB, through its investments in private and public enterprises in developing countries.
- Emphasis is placed on how the EU will promote real country ownership of reforms. Improvements in public finance management are fundamental to combating corruption and promoting efficient public spending.
- Partnership with the private sector will be supported.

Agenda for Change

- Broadening the scope for the EU to work more closely with the private sector.
- The EU aims to develop new ways of engaging with the private sector, with the aim of leveraging private sector activity and resources for delivering public goods. Proposed directions are: up-front grant funding and risk-sharing mechanisms to catalyse public-private partnerships and private investment.
- Argues that as economic growth needs a favourable business environment, thus supports creating a stronger business environment.
- Aims to pass a greater share of EU aid through innovative financial instruments, such as through the facilities for blending grants and loans.
- Blending mechanisms will be developed as a way to boost financial resources for development. EU aims to pass a higher percentage of EU aid through existing or new

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financial instruments, such as blending grants and loans and other risk-sharing mechanisms, in order to leverage further resources as a way to increase impact. This should be overseen by the EU platform for Cooperation and Development incorporating the Commission, Member States and European financial institutions.

A Decent Life for All 2013

- Alongside health and education sector concerns, there is a broadening of the scope, to include "structural transformation of the economy and an enabling environment for innovation, entrepreneurship, business and trade" (European Commission, 2014).
- Focus is placed on investing development aid, in an efficient and effective way. The aim is to make aid acts as a catalyst for development, by leveraging investment, including through innovative financial sources, instruments and mechanisms, such as blending.
- EU notes that key areas of importance are science and technology, telecommunications services, financial services and infrastructure, as ways to facilitate access to markets, as well as migration and mobility. For these areas to thrive, what needs to be created is an enabling and stable environment for business, entrepreneurship, innovation.

From the 2005 policy commitment where EU aid is mandated to complement and align with whatever nationally-led development strategy a country may have, in 2011, Agenda for Change mandates EU aid to much more focused on creating conditions to lure in foreign investments by structurally transforming the 'business environment'.
Furthermore, the EU participates in the UN's development framework and, as such, is actively participating in the discussion about post-2015 development goals which are a key priority in current EU development policy. The EU's input in the UN's official process for deciding the post-2015 SDGs and their financing framework occurs through the UN's Open Working Group on SDGs, and the Expert Group on Sustainable Development Financing. The

EU's policy documents emphasised supporting development that was nationally decided. The policy documents have evolved and now favour a specific form of development with certain characteristics revolving around promoting private financial flows.

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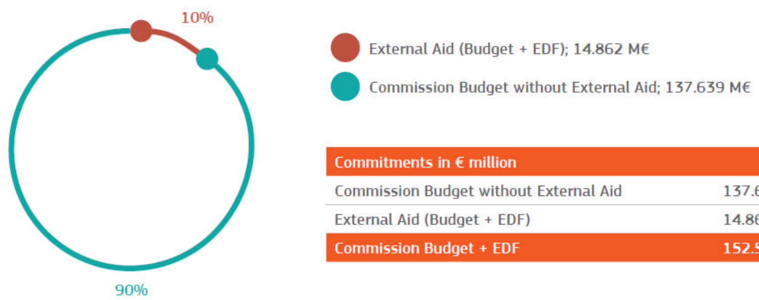
3 How aid policy is carried out

There are several layers at which development-aid policy is carried forward on the European level. There is the EU supranational level, which formulates overall EU developmental policy. At the EU level there are two key avenues for the channeling of EU funds to developing countries: through the EU's aid budget, which is agreed in accordance to the specification of the overall EU budget, and as such is subject to Parliamentary approval, and through the European Development Fund (EDF), which is financed independently of the EU budget through the individual contributions of member states. Furthermore, there is the EIB, the investment bank of the EU, which although not formally mandated as a development bank, undertakes in the name of development multilateral funding of large scale projects in developing countries.[4] The EIB also manages funds allocated on behalf of the European Commission using funds allocated to the EDF.

Percentage of EU budget committed on external assistance in 2013



Commitments in € million	
Commission Budget without External Aid	137.639 M€
External Aid (Budget + EDF)	14.862 M€
Commission Budget + EDF	152.501 M€

Source: European Commission, 2014 Annual Report on the EU's development and external assistance policies and their implentation in 2013, DEVCO

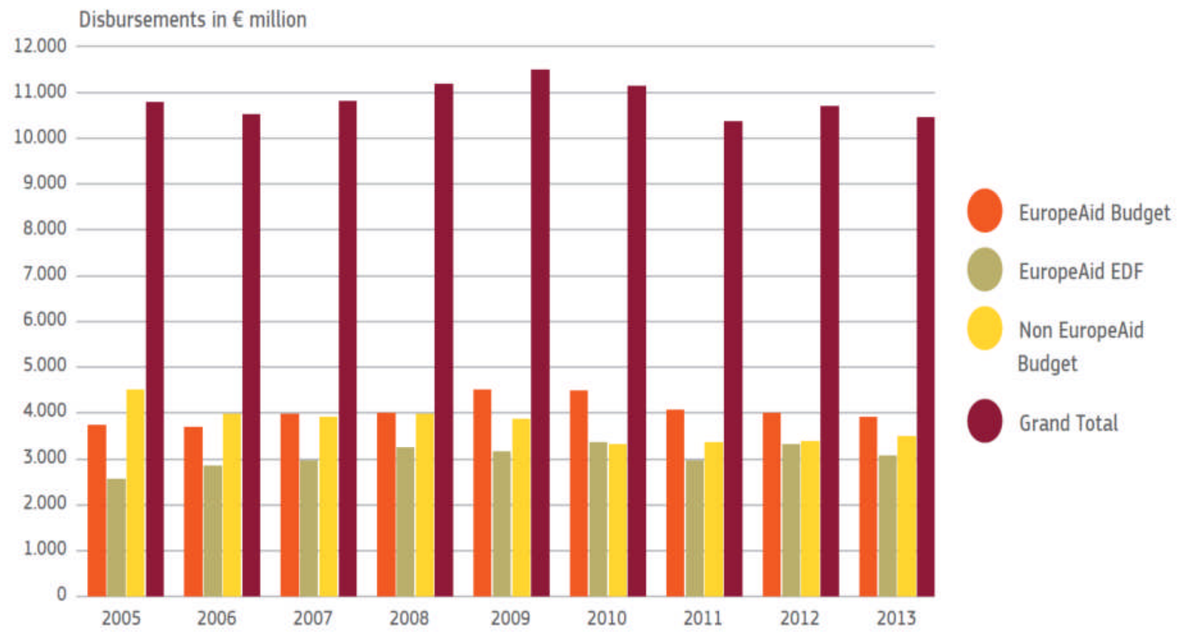
On the national level, member states have their own development offices, which in certain countries, such as DFID in the UK, are sizeable Departments of the state apparatus setting development policies as part of the governing party's overall policy agenda. Of the aid commitments made by individual member states, a portion gets channeled and delivered via

[4] Created in 1958, it was only in 1997 through Council Decision 97/256/EC that the first formal development mandate was ascribed to the EIB, and only recently has it identified as a 'development bank'. However, this is not set in stone according to the EIB president: "the renewed EIB's external mandates for the period 2007-2013 will "most probably, confirm the EIB's role as a 'development bank' in regions with which the EU has chosen to maintain a preferential partnership" (as quoted in Lesay, (2010).

the EU, while the rest may be delivered bilaterally through domestic institutions or via other multilateral organisations. On a national scale as well as the aid agency, there are two other state-supported funding institutions which are important to understanding development policy in Europe, the national Development Finance Institutions and Export Credit Agencies, both of which provide funds in the name of development and are backed by the state. In the UK for example, these would be the CDC Group and UK Export Finance, respectively. Whether the aid each country spends is distributed bilaterally or multilaterally, either way, the delivery of the aid occurs through multiple channels, and aid is received by government institutions or private sector contractors or NGOs who apply for funding to implement the aid policies on donor's behalf.

The EU institutions and the member states collectively spent €55.2 billion euros in aid (ODA) in 2012, making the EU one of the most important sources of development aid globally. With respect to multilateral lenders, the EU institutions provide the substantial amount of ODA in comparison to other multilateral institutions. Aid expenditure is cyclical, and there has been a notable decrease in aid spending since the crisis in Europe deepened, with the ODA/GNI ratio declining from 0.44% in 2010 to 0.39% for the 28 EU member states (European Commission, 2013) Member states have pledged to allocate 0.7% of the GNI in development aid, a promise however that only few manage to keep. Of the funds that member states provide, on average about a fifth is spent under management by EU institutions, and the remainder is allocated by the domestic channels of national member state, or via other multilateral donors (OECD DAC, 2013).

External Assistance 2005 – 2013



Source: DEVCO (2013)

In the table below are the aid disbursements from the EU member states together with the EU institutions for the years 2011-2015 (OECD database, Aid Statistics). The EU institutions spent on aid in 2011 €12.507 billion euros[5], €9.04 billion of which is already accounted for in members states contributions, and 3.453 of which is additional to the member states ODA , bringing the total of EU member states and institutions for 2011 to €56.259 billion euros. See the table below for a detailed expenditure on ODA by member states and EU institutions for 2011-2015.

[5] As we can see from the OECD DAC data and the EU Accountability Report, there is discrepancy in the official calculations provided, that we assume is down to errors of double counting.

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Table 4.2.3b: Estimates and gaps to be bridged for reaching the 2015 ODA targets, based on Member States' forecast information and Commission simulations

Member State	2011 euro mln	2012 euro mln	2013 euro mln	2014 euro mln	2015 euro mln
Austria	799	865	1,362	1,359	1,347
Belgium	2,019	1,792	1,998	2,065	2,920
Bulgaria	35	30	45	50	56
Croatia	15	15	41	65	69
Cyprus	28	20	28	29	29
Czech Republic	180	171	178	189	188
Denmark	2,108	2,115	2,151	2,204	2,258
Estonia	18	18	19	23	25
Finland	1,011	1,027	1,118	1,123	1,090
France	9,348	9,419	9,826	10,531	10,916
Germany	10,136	10,198	10,461	10,731	11,008
Greece	305	252	234	217	202
Hungary	100	93	94	98	102
Ireland	657	629	623	623	623
Italy	3,111	2,053	2,581	2,435	2,978
Latvia	14	16	16	17	19
Lithuania	38	40	41	43	44
Luxembourg	294	336	323	323	337
Malta	14	14	15	19	23
The Netherlands	4,563	4,298	4,240	3,816	3,990
Poland	300	341	387	407	428
Portugal	509	441	464	488	513

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Romania	118	113	126	134	142
Slovak Republic	62	61	63	66	69
Slovenia	45	45	45	46	47
Spain	3,001	1,516	1,955	1,630	1,360
Sweden	4,030	4,078	4,411	4,599	4,748
UK	9,948	10,627	13,067	13,612	14,117
EU15 total	51,840	49,647	54,814	55,756	58,406
EU13 total	966	977	1,099	1,186	1,241
EU28 total	52,806	50,623	55,913	56,942	59,647
EU Institutions ODA	**12,507**	**13,669**			
of which:					
Imputed to Member States	9,054	9,125			
Not Imputed to Member States	3,453	4,544	5,071	5,736	6,487
Collective EU ODA	**56,259**	**55,167**	**60,984**	**62,677**	**66,134**

Shaded cells are EC estimates

Source: European Commission (2013)

Although EU States decreased their aid expenditure during the crisis, the EU institutions' ODA, which is partially funded from resources independently of the member state's contributions, actually increased between 2011 and 2012 and is projected to keep increasing. Another characteristic of EU institutions' aid allocation is that a third of it is channelled to just five countries, all in the MENA and European regions. For the top recipients of EU institutions' aid see the table below. A key recipient of EU aid is the Turkish financial sector, which in 2012 received 17% of EU aid funds. Over half of aid is directed to middle income countries. Although recent EU policy commitments have taken note that more aid should go to low income countries, as currently only a quarter goes to least developed countries, the issue of the consequences of the financial sector being an increasingly privileged recipient of aid has not been adequately addressed.

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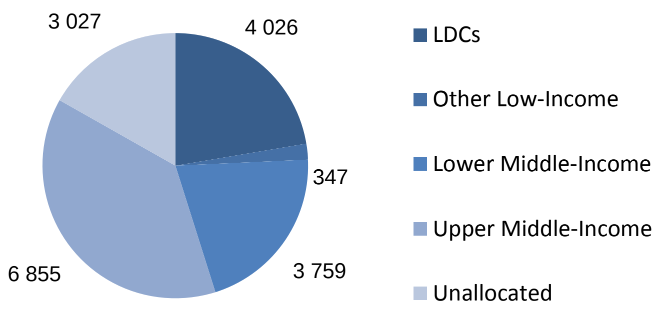
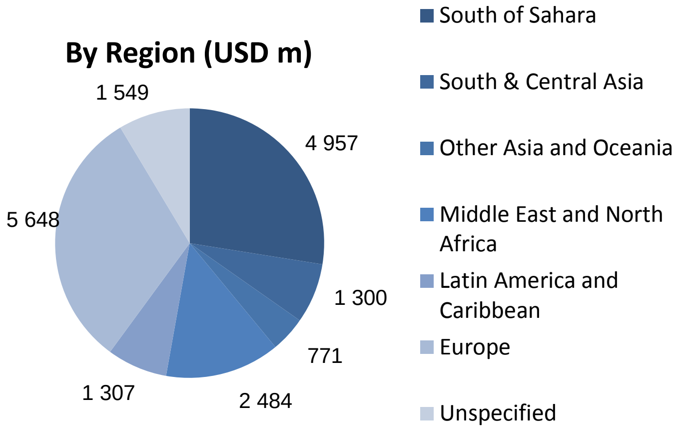
Aid distribution by recipient and income group

From EU Institutions

Top Ten Recipients of Gross ODA (USD million)		
1	Turkey	2 967
2	Serbia	998
3	Tunisia	541
4	Morocco	463
5	Egypt	455
6	West Bank & Gaza Strip	359
7	Bosnia and Herzegovina	317
8	Afghanistan	310
9	Congo, Dem. Rep.	303
10	South Africa	287
Memo: Share of gross bilateral ODA		
Top 5 recipients		30%
Top 10 recipients		39%
Top 20 recipients		50%

By Income Group (USD m)





Source: OECD, DAC, Aid statistics

The EU aid money is channelled through financing instruments set up through the budget, and also independently of it, through the EDF. Aid allocations via the EU budget are decided in synch with the overall EU budget through the seven-year Multiannual Financial Framework (MFF), and the new framework covering the years 2014 – 2020 has slightly altered the financing instruments providing aid.(European Union, 2014). For this seven years period, the budget allocation that deals with aid is called 'Global Europe', which covers "all external action by the EU". This includes but is not restricted to ODA. Of the funds that are allocated, only some of those will fulfil ODA criteria. For example, for the MFF up to 2013, 90% of all funds allocated under Global Europe had to be ODA eligible (European Commission, 2011). ODA by definition "excludes export credits given by state-supported (official) export credit agencies primarily to promote exports. It also excludes funds that support equity or portfolio investment in developing countries and military aid" (Bräutigam, 2010). The EU's financial instruments delivering aid under the MFF that expired in 2013 are in the appendix.

For the MFF 2014-2020, the total budget for the seven year period of Global Europe is €66.262 billion, which corresponds to 6.1% of the total budget for the 7-year period (European Union, 2013). From the EU budget in the new funding period of 2014 – 2020 there are several types of financing instruments dealing with aid. Although the structure of the 2014-2020 Global

Europe financing has changed from its predecessor described above, it also has many similarities. The financing instruments are again divided into geographic and thematic groups, the former absorbing a substantially larger part of the funds. The geographic instruments are: the Instrument for Development Cooperation (DCI) which covers Latin America, Asia, Central Asia, Middle East and South Africa; the Instrument for Pre-accession Assistance (IPA), which is relevant to the countries in line to become EU members; and the European Neighbourhood and Partnership Instrument (ENPI), which covers Southern Mediterranean and countries to the East, where any funds for Russia are established in a separate framework to the ENP. The European Development Fund (EDF), set up in 1957 to provide funds towards former European colonies, is the current aid provider for 79 ACP and OCT (Overseas Countries and Territories) countries; it is also substantial in size but its funds do not arise from the MFF but it covers a major geographic region. The decision whether to include EDF funds within the MFF framework was once again postponed until 2020.

Looking at the instruments in more detail: the DCI is a major geographic instrument which also includes thematic programmes. The 2014 budget is €2.3 billion and the aid is distributed bilaterally as per agreements between partner countries, or to regions for regional programmes. DCI provides the funds by using blending and innovative financial instruments. The majority of this budget is spent on its geographical programmes, but as it also includes thematic programmes. The geographic distribution of DCI funds are Latin America (23%), North and SE Asia (26%), Central Asia (10%), the Gulf States (5%) and South Africa (35%) (Rabinowitz and Pereira, 2013). The thematic programmes of the DCI are the Civil Society organisations and local authorities (CSO-LA), the Global Public Goods and Challenges (GPGC) which receives €5.101 billion for seven years, and the pan-African programme which receives €845 million. The CSO-LA receives €1.907 billion for seven years, is a major source of funding for CSOs within Europe that work in international development, and it is managed jointly by the EEAS and the EC, through the Foreign Policy Instruments and DG DEVCO.

The other geographic funds are the European Neighbourhood Instrument (ENI), with €2.192 billion allocated for 2014, for the financing of European Neighbourhood policy (European

Union, 2014). There is also the Instrument for Pre-accession assistance (IPA), with €1.578 billion per year targeted to macro reforms that countries need to fulfil to be eligible for EU accession, and covers country specific or regional programmes.

There are thematic instruments: the European Instrument for Democracy and Human Rights (EIDHR) whose mandate aims to enhance democracy, the rule of law, and protect human rights. The second instrument is the Instrument for Stability (IfS) which could finance short term security threats, or provide longer term security for stable countries. The budget is to be spent on 'peace building' and 'conflict prevention'. The Partnership Instrument (PI) is mandated to finance the EU's strategic interests abroad, regardless of location, and it seems unlikely these funds would fulfil ODA criteria. Humanitarian aid receives just over 11% of the external action budget, with €6.6 billion euros over the seven year period, as well emergency reserve funds that can be called upon in major crises. Almost half of the humanitarian aid budget (46%) gets distributed to CVOs and international organisations which deliver the humanitarian action on the ground, such as the UN which receives 39.8% of EU humanitarian funds and 8% which goes to international organisations (ECHO)

A closer examination of the 2014 distribution among the various instruments of EU aid funds funded by the MFF can be summarised in the table.

EU budget 2014 Global Europe	**EUR million**	**%**
Instrument for Pre-accession assistance (IPA)	1 578.4	19.0
European Neighbourhood Instrument (ENI)	2 192.2	26.3
Development Cooperation Instrument (DCI)	2 341.0	28.1
Partnership Instrument (PI)	118.9	1.4
European Instrument for Democracy and Human Rights (EIDHR)	184.2	2.2
Instrument for Stability (IfS)	318.2	3.8
Humanitarian aid	920.3	11.1
Common Foreign and Security Policy (CFSP)	314.5	3.8

Other actions and programmes (including decentralised and executive agencies)	357.3	4.3
TOTAL	8 325.0	100.0

3.1 The European Development Fund

Since 1957, the European Development Fund (EDF) is the vehicle that has channeled aid money to the ACP region and the OCTs. Its budget is separate to the EU's MFF budget: it is raised independently from the member states, and for the seven year period 2014-2020 is €30.5 billion, up for €22.7 billion for the period 2008-13. The European Commission is responsible for its operations, and its funds and programmes are renewed every five or six years directly from member states. The EDF funds are divided and managed into two distinct ways, with the total assets of the EDF under EU management for 2012 at €2.5 billion, and the total assets of the EDF under EIB management at €2.13 billion. (European Commission, 2013b)

The financing arrangements for the EU managed funds of the EDF are seen below.

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European Development Fund (EDF) in 2013

Except the Investment Facility managed by the EIB

Instruments (1)	Commitments (2)	Disbursements	Of Which ODA Commitments (2)	Of Which ODA Disbursements
Lomé				
NIP / RIP Grants	-	6	-	6
Aid for Refugees	-	0	-	0
Stabex	0	6	0	6
Risk Capital	-	0	-	0
SYSMIN	-	-	-	-
Heavily indebted poor countries	-	-	-	-
Use of interest (Lomé)	-	-	-	-
Transfer 6th EDF	-	-	-	-
Transfer 7th EDF	-	3	-	1
Total Lomé	0	15	0	13
Cotonou				
A Envelope - Programmable Aid	2.995	1.849	2.875	1.787
Envelope B - unforeseen	342	255	330	250
Regional projects	782	321	663	208
Intra ACP	604	515	469	391
Co financing A Envelope	-	-	-	-
Other	-	-	-	-
Implementation expenditure + Congo Rep. Dem.	62	96	60	95
Total Cotonou	4.784	3.036	4.397	2.731
Grand total EDF	4.784	3.050	4.397	2.744

Breakdown by instrument of development assistance financed on the European Development Fund (EDF) in 2013 (amount in € million).
1 Except The Investment Facility (10th EDF) managed by the EIB
2 Commitments 2012 have been calculated following DAC procedures :
Total commitments made in 2012 reduced by decommitments made on projects committed in 2013

Source: European Commission, 2014 Annual Report on the EU's development and external assistance policies and their implementation in 2013, DEVCO

The Cotonou agreement set up a new financing mechanism for the EDF, by establishing the Investment Facility (IF), whose management is entrusted to the EIB. The mandate of the IF is "to support private sector development in the ACP States by financing essentially – but not exclusively – private investments." (European Commission, 2013b) This is a risk bearing fund, aimed at private sector investments. Over the course of ten years, from 2003 to 2013, the IF has invested €3.4 billion euros, 85% in the private sector in ACP and OCT countries. A more detailed breakdown consists of €2 billion euros to financial sector development, by far the largest single beneficiary (European Investment Bank, 2013). In comparison, 71 million over ten years has gone to clean water and sanitation projects, 280 million to microfinance institutions and 190 million to private equity firms who finance SMEs.

The IF is a renewable fund, meaning the profits made on investments finance new loans. Loans make up the majority of the fund's portfolio, but it also makes use of derivatives and

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off balance sheet transactions. The IF's loan portfolio is highly concentrated in non-guaranteed loans to the private sector, be it financial or corporate.

Loans Credit Risk Exposure 2012

	Guaranteed	Other credit enhancements	Not guaranteed	Total
Banks	1%	12%	18%	31%
Corporates	2%	7%	42%	50%
Public institutions	3%	0%	0%	3%
States	0%	1%	15%	16%
Total disbursed	6%	19%	75%	100%

Source: own calculation from European Commission (2013b)

Furthermore, an analysis into the credit worthiness of the borrowers reveals that 76% of IF funding goes to High Risk and Below grade borrowers, while only 3% being directed to high grade borrowers.

3.2 The European Investment Bank

The EIB undertakes development policies in more ways than through its management of the Investment Facility. The EIB is a key funder of large investments projects throughout the world, which are increasingly couched in terms of a development mandate, despite the statutes of the EIB did not originally mandate it as a development bank, but as an investment bank, part of whose objectives are to supplement the EU's overall external action agenda.

The EIB is a major provider of international finance, but has come under scrutiny for its role in developing countries. The EIB does not have a research department that publishes on the scale of the other IFIs, but, as Lesay (2010) shows, the analysis of its policy documents leads to the conclusion that its development stance is firmly rooted in the Washington Consensus.

This is documented in various ways, including through stated aims such as funding programmes which aim to create free trade areas, 'help liberalise financial sectors' (EIB, 2000: 40), or 'foster economic liberalisation'(EIB, 2001: 5) without acknowledging any provisos or ways to mitigate from the much discussed threats this may result in.

The area that has created the fiercest criticism is the simplistic schema regarding the benefits of FDI, particularly investments in extractive industries. Despite the criticisms that emerged to counter the optimistic assessment that the Washington Consensus had developed regarding the compatibility of large scale mining with developmental outcomes by for example Ocampo and Parra (2007: 113), and Stiglitz (2001), the EIB still maintains an unflinching positive outlook on the role of large scale extractive industries for achieving development aims (Lesay, 2010). Using the extractive industries as an example, the overall position regarding FDI can be deduced as simplistic and reminiscent of the unreserved views in the 80s:

> "EIB supports FDI projects in developing countries; it thus contributes directly to economic growth and indirectly to the transfer of technologies and know-how; these direct influences and indirect spill overs will be beneficial for the economy of the target country. There is absolutely no mention of potentially negative aspects of FDI in the EIB documents." (Lesay, 2010: 18)

There are also concerns about the funds the EIB channels to the financial sector. The EIB makes frequent use of financial intermediaries to on-lend to SMEs. A weakness of this practice is that it lacks transparency, as the ultimate use and beneficiaries of the loans are unknown. Assessing social, environmental or economic impacts of the EIB loans to the financial sector are therefore close to impossible to ascertain. The EIB works with standard commercial financial intermediaries who have no attachment or tie to fulfilling development outcomes. The EIB's loans are actively facilitating the commercial banking sector, or other types of intermediaries such as private equity funds (Counter Balance, 2013).

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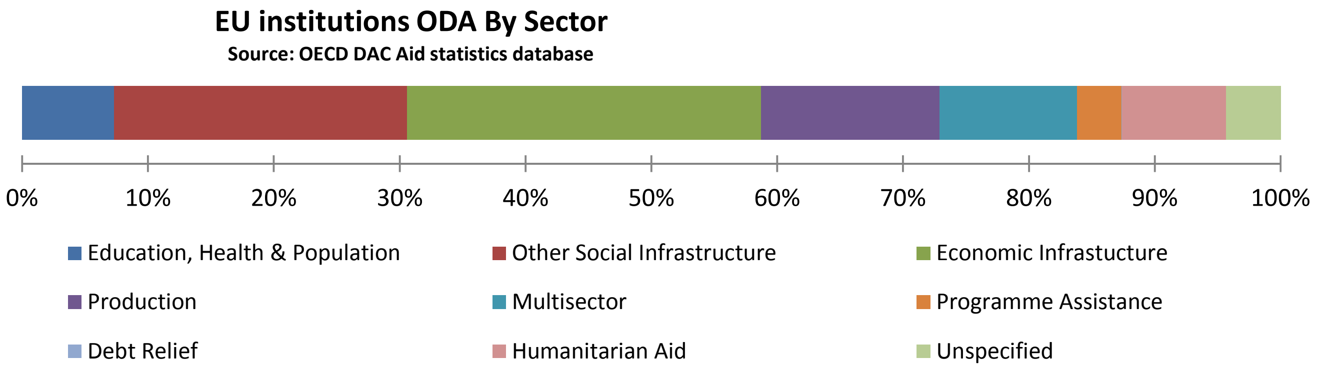
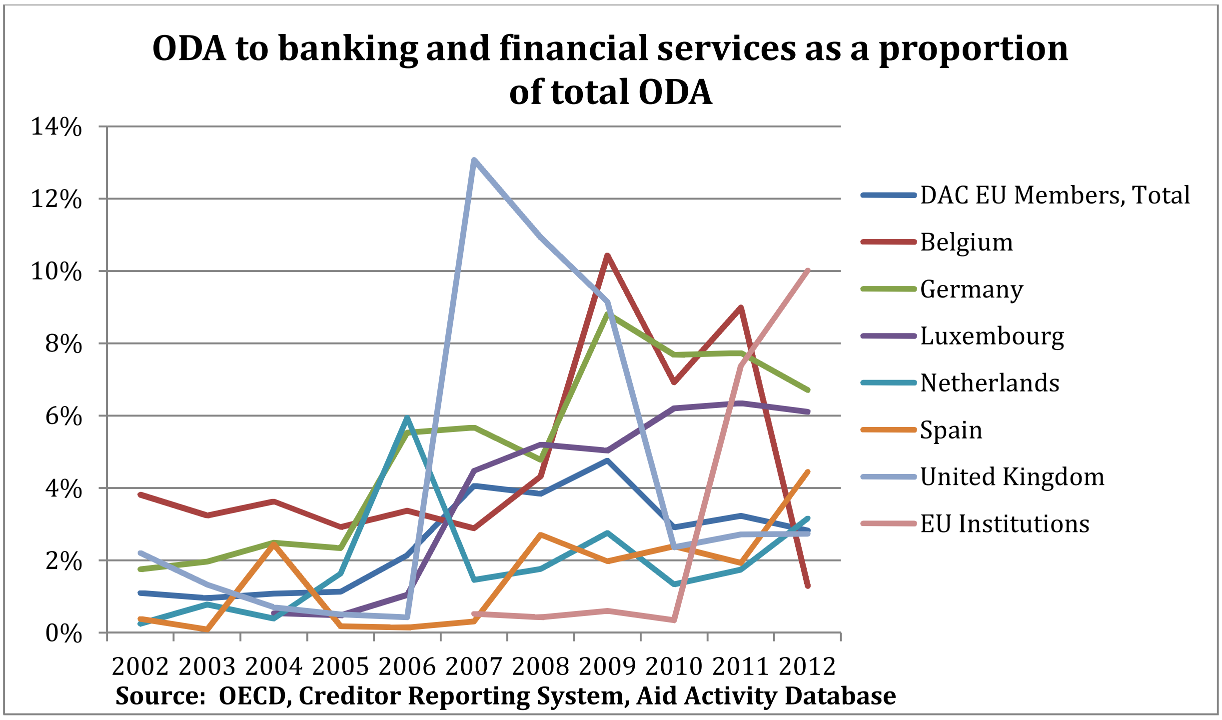
4 Aid distribution by Sector



DAC EU Members, total ODA	2006	2007	2008	2009	2010	2011	2012
I. Social Infrastructure & Services	30.80%	37.70%	38.22%	41.22%	34.96%	37.90%	40.67%
II.1. Transport & Storage	2.33%	2.48%	4.14%	2.94%	2.67%	2.14%	3.90%
II.2. Communications	0.25%	0.23%	0.20%	0.43%	0.41%	0.36%	0.22%
II.3. Energy	1.93%	1.87%	3.76%	3.88%	6.66%	4.84%	7.37%
II.4. Banking & Financial Services	2.30%	4.39%	4.06%	4.62%	2.36%	3.50%	3.44%
II.5. Business & Other Services	0.72%	1.71%	1.06%	1.17%	1.52%	2.30%	0.90%
III.1 Agriculture, Forestry, Fishing	2.30%	3.62%	3.14%	4.27%	4.47%	4.02%	4.76%
III.2 Industry, Mining, Construction	0.56%	0.81%	1.17%	1.13%	1.84%	1.84%	1.21%

Source: OECD DAC aid statistics database

The charts above give a first indication of the importance of the financial sector as an aid recipient for the whole EU institutions and member States. Banking and financial sector gets about 2 to 4% of total ODA. Although this may appear a modest proportion, it appears the third important beneficiary sector as part the ODA given for the economic development, after energy and agriculture, much higher than the support to the industrial sector.



DAC-EU Members, Total					
	2008	2009	2010	2011	2012
Health	5%	5%	5%	4%	5%
Water and Sanitation	4%	5%	4%	4%	4%
Banking and Financial services	4%	5%	3%	3%	3%
Business and Other services	1%	1%	1%	2%	1%

Source: OECD: Creditor Reporting System, Aid Activity Database

EU Institutions	2008	2009	2010	2011	2012
Health	4%	4%	3%	3%	2%
Water and Sanitation	4%	4%	4%	4%	4%
Banking and Financial services	0%	1%	0%	7%	10%
Business and Other services	1%	1%	1%	1%	0%

Source: OECD: Creditor Reporting System, Aid Activity Database

Further breakdown reveals interesting additional details. The sectorial allocation of ODA to the financial sector for the member states covers between 3 to 5% of the aid budgets in the years between 2008 and 2012. As a mean of comparison this is more or less the same proportion given as ODA for Healthcare or Water and Sanitation. The proportion of ODA directly given by the EU institutions, although small until 2008, has increased considerably in recent years reaching a high figure of 10% in 2012. This is more than double the size taken Water and Sanitation aid and nearly five times the amount given for Healthcare.

Breakdown of ODA to financial sector

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Financial policy and admin management	12%	8%	20%	9%	6%	10%	9%	2%	3%
Monetary institutions	7%	24%	0%	1%	1%	0%	1%	4%	1%
Formal sector financial intermediaries	46%	52%	72%	73%	83%	74%	72%	87%	94%
Informal / Semi formal F.Is	33%	15%	7%	16%	10%	15%	17%	5%	2%
Education/ Training in Banking & financial services	3%	1%	2%	2%	1%	1%	2%	1%	0%

Source: OECD: Creditor Reporting System, Aid Activity Database

Within the ODA to the Banking and Financial services the biggest and increasing proportion goes directly to financial intermediaries. From 2004 to 2012 aid money to formal financial intermediaries has increased proportionately, from about half to 94%.

Banking and financial sector (units: euro millions)			
	Committed	Disbursed	Difference %
2007	35.05	54.52	56%
2008	13.63	55.27	306%
2009	22.67	27.2	20%
2010	1.17	33.15	2733%
2011	3.27	39.46	1107%
2012	32	25.47	-20%
2013	35	12.78	-63%
Source: Annual reports on EU's Development and external assistance policies and their implementation, various years			

Another trend with regards the amounts of aid challenged to the financial sector is the difference between the amount committed and actually disbursed. The trend of the past seven years has been for the amounts disbursed to the financial sector to far exceed the amounts that were originally committed for the year.

OOF flows going to Banking and Financial Services as a proportion of total OOF flows											
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
All Donors Total	13%	14%	12%	13%	9%	10%	3%	16%	13%	11%	10%
Multilateral, Total	13%	14%	12%	13%	9%	10%	3%	16%	13%	11%	10%
AfDB	52%	73%	35%	23%	1%	37%	1%	49%	16%	23%	16%
AsDB									7%	12%	10%
EBRD								29%	36%	35%	33%
IBRD	11%	8%	10%	12%	9%	6%	3%	9%	13%	3%	3%
IDB								14%	9%	9%	9%
OFID (OPEC fund for Int Dev)								33%	23%	30%	34%

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Source: OECD, Creditor Reporting System, Aid Activity Database (CRS)

Finally, a noticeable feature of the funds spent in the name of development that end up being channelled to the financial sector are the funds of OOF, i.e. the funds that do not fulfil the ODA criteria but are official development finance. This is a trend true of all development finance institutions, as indicated above.

In sum, official flows to the financial sector represent an important component of EU aid. While not too prominent as a proportion of total aid for member countries, they represent nonetheless one of the top three recipient sectors together with the agricultural and energy sectors, dwarfing the aid the whole industrial sector. The proportion for EU institutions alone is at a staggering 10% of their total aid. A growing proportion is also going to financial intermediaries directly.

This reveals the crucial role given by the EU to the development of the financial sector as an engine of economic development. However, as shown in the introductory discussion, concerns have been raised about the effectiveness of the financial sector to be so, and certainly the proportion of support given to the financial sector as opposed to that given to the industrial sector raises concerns. Finally, this only covers the 'traditional' ODA, and as the following section reveals, the increasing reliance on blending mechanisms to increase the aid budgets, may well increase the actual proportion of financial sector support.

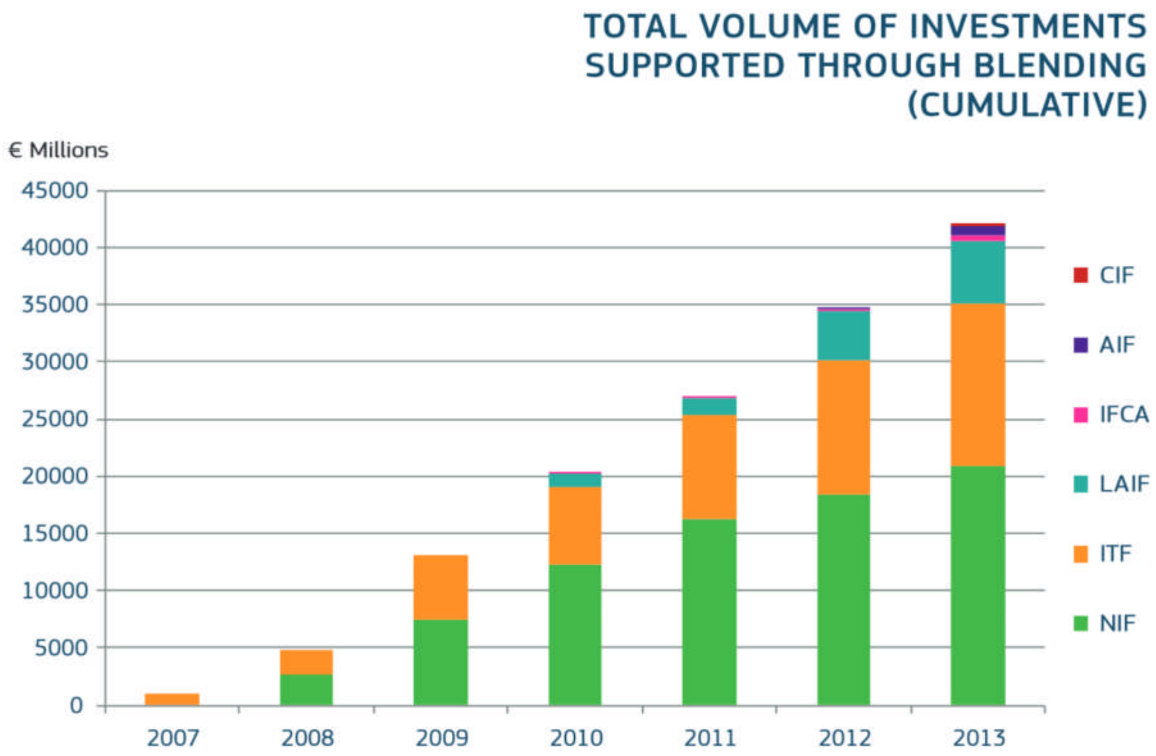
5 The increased role on blending ODA with official or commercial loans

A key emphasis in recent EU policy practice is to use the development finance that is available in 'innovative and effective ways'. To scale up the blending mechanisms the EU Platform for blending in External Cooperation was launched in December 2012. "Innovative modalities of delivering finance can increase effectiveness and should be scaled up. Blending of grants with loans and equity, as well as guarantee and risk-sharing mechanisms can catalyse private and public investments, and the EU is actively pursuing this." (European Commission, 2013c). At the core of blending is the use of the grant element in EU funding as a magnet to attract additional financing. The grant element can be used in many ways: about a third EU blended grants are used as direct grants, interest rate subsidies and technical assistance, and a small share as risk capital operations and/ or guarantees and insurance premia (Planas, 2012). The EU states that in the past seven years €1.6 billion of EU grants have been used to leverage in approximately €16 billion of loans from European finance institutions and regional development banks, in approximately 200 blended projects. Approximately two thirds of the EU grants that are allocated to blending projects end up in energy, and transport infrastructure projects (European Commission 2014b).

The main arguments used by the EU to support its use is that for recipient governments in developing countries blending provides a sustainable source of additional financing, and that the main benefit for the private financiers who are attracted in is that the 'risks associated with investing in new markets and sectors' are mitigated. The benefits according to the EU are not only financial but also that blending can be used to leverage policy to support 'reforms in line with EU policies' (European Commission 2013d). The centrality of using risk-bearing mechanisms as part of blending is emphasised and thus "the Commission carefully considers potential risk to ensure that the EU grant element addresses market failures and channels private financing towards investments that contribute to poverty reduction, while avoiding market distortion." How it will do this is unclear.

Seven regional blending facilities were set up through the 2007-2013 MFF (Planas, 2012). They are:

- EU-Africa Infrastructure Trust Fund (ITF) 2007
- Neighbourhood Investment Facility (NIF) 2008
- Latin America Investment Facility (LAIF) 2010
- Investment Facility for Central Asia (IFCA) 2010
- Caribbean Investment Facility (CIF) planned for 2012
- Asian Investment Facility (AIF) starts operation in 2012
- Investment Facility for the Pacific (IFP) planned for 2012



Source: European Commission (2014b)

EIB also manages two blending mechanisms, through the Investment Facility which is composed of the two financing windows (one for ACP countries and one for OCT). In 2012 for example 43% of EIB lending went to the financial sector in ACP countries (Romero, 2013). "There is a relentless emphasis given on ways of "leveraging private sector activity and resources" as a means to provide public goods" (Romero, 2013).

The financial institutions that are eligible to submit projects and benefit from the EU blending facilities are Multilateral institutions (EIB, EBRD), European national development finance institutions (such as KfW – Germany, AFD - France, SIMEST- Italy) or regional banks. National DFIs are bilateral institutions mandated by their respective governments to 'foster growth in sustainable businesses, contribute to achieving the MDGs, and help reduce poverty'. The Association of European Development Finance Institutions is a platform of 15 bilateral European DFIs. They aim to achieve these objectives by investing in private sector enterprises. With a combined portfolio of €28 billion (50% in equity and quasi equity, 48% in loans and 2% in guarantees), they are significant source of funding. Despite an on-going crisis in Europe, the EDFI has been able to increase its pooled portfolio. The most significant sectors invested in are 30% in the financial sector, 26% in infrastructure, and 23% in industry and manufacturing. In 2013 the regions receiving the most of the funds are the ACP region (28%) and Asia and China (26%) (EDFI, 2013). Despite the fact that the financial intermediaries receive 30% of EDFI funds, a self-evaluation into their ability to reach SME's was negative (EDFI, 2014).

The narrative within the recent policy documents to bring the private sector into the heart of development finance lucidly reveals the theoretical understandings of the policy proposals, which were raised in the introductory section of the paper. Furthermore, it potentially serves as a means to deflect from the decreasing amounts of official funds spent on aid, and this bolsters the drive to bring the private sector in. Whether referring to ODA or OOF and their use in leveraging in private sector funds a few methodological points are raised. Contingent liabilities are not recorded within the ODA and OOF data and there is an issue of whether the leveraged private sector funds could potentially constitute contingent liabilities for the EU. Furthermore, there does not appear to be sufficient evaluation of the liabilities that could be created for developing countries themselves. It is frequently observed in both developing and developed countries that the liabilities of the private sector are taken on by the state when they cannot be met, and this is particularly true of the banking sector's liabilities. Therefore there are significant debt implications for developing countries arising from the increased loans to the financial sector, both in itself and to the degree that this is enhanced by the use of blending mechanisms. These do not appear to be significantly addressed by the EU development policy.

Another issue is that of assessing the degree of leverage and thus potential development finance arising from assuming or calculating a multiplier. It is not clear what the multiplier is, nor whether it is realistic. For example, although the EU provides clear data on the amount of EU grants channeled into blending, it is not equally as transparent on the leveraged funds' size or source. A recent example regarding the EU Commission's plan to establish a European Fund for Strategic Investment (EFSI) that estimates that €21 billion of official funds will leverage in total funds of €315 billion over three years, does not however provide adequate evidence that this will be feasible (European Commission, 2014c).

Many of these concerns about the blending practices were raised by the European Parliament itself: "the blending mechanism, as it stands now, is proposed to mix public grants with financial institutions' loans and other risk-sharing mechanisms, at a time of financial crisis implying budget constraints for development; requests the Commission, therefore, to provide clear information on how this mechanism serves the purpose of a development policy based on ODA criteria and how the power of scrutiny of Parliament will be exercised" (European Parliament, 2012). It remains unclear how financial institutions' profit maximisation and risk management will coincide with development policy under an ODA criteria, and how this will be maintain effective electoral oversight (European Parliament, 2012). Although the EP encourages and recognises that the development of innovative financial mechanisms are crucial to the future of development finance, it also expresses a concern, "Calls on the EU to properly evaluate the mechanism of blending loans and grants – particularly in terms of development and financial additionality, transparency and accountability, local ownership and debt risk - before continuing to develop blending loans and grants to boost financial resources for development and to promote microcredit;" European Parliament, 2012). The implications of blending are also related to the potential for diluting the category of ODA finance as has been suggested.

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6 Conclusion

This paper has analysed the growing importance of the financial sector in the aid provision, with a particular interest in the case of the EU. It was argued that finance – or financialisation – enters the aid provision mechanisms at two levels: in the sizeable allocation of ODA given to the financial sector of developing countries, and in the provision of aid, through the increasing blending of official and private funding sources, effectively leveraging the aid budget with private loans.

With respect to the former the EU seems to rely, at least implicitly, upon the concept of "financial development". However the concept has long been questioned, both in its internal logical and policy implications, and is also recently being challenged by the emerging financialisation literature, which points out the potentially negative effect that a growing financial sector can have on the real economy.

With respect to the latter, concerns can be made on more practical grounds, as also suggested by the European Parliament. It is not fully clear how leveraging can improve the aid mechanism. While potentially increasing the size of the official aid budget, liabilities are generated which can create risks and additional costs within the EU states and/or the recipient countries, to the benefits of the European financial sector. This can potentially have harmful consequences on the stability and riskiness of aid provision, thus reducing rather than improving its effectiveness.

In sum, the evidence provided here further reinforce the message that policies, including aid policies, must make sure that finance serves the needs of economic and social development, rather than the other way around.

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8 Annex I Financial Instruments for EU external Action 2007 – 2013

Budget:

Geographic:

- Development Cooperation Instrument (DCI, €16.9 billion 2007-13): Asia, Latin America, Central Asia, the Middle East and South Africa. This instrument also contains thematic programmes covering specific activities in all developing countries.
- European Neighbourhood and Partnership Instrument (ENPI, €11.2 billion, 2007-13): European Neighbourhood and Russian federation.
- Instrument for Pre-Accession (IPA, €11.5 billion, 2007-13): EU accession countries.
- Instrument for Cooperation with Industrialised Countries (ICI, €172 million, 2007-2013)

Thematic: Common Foreign and Security Policy (CFSP, €2 billion 2007-13).

- European Instrument for Democracy and Human Rights (EIDHR, €1.1 billion 2007-2013): promoting democracy and human rights worldwide.
- Food Facility Instrument (FFI, €1 billion, 2009-2011): enabling a response to problems caused by soaring food prices in developing countries.
- Humanitarian Aid Instrument (HAI, €5.6 billion 2007-2013): providing funding for emergency and humanitarian aid relied and food aid.
- Instrument for Nuclear Safety (INS, €524 million 2007-2013): ensuring nuclear safety.
- Instrument for Stability (IfS, €2.1 billion, 2007-2013): tackling crises and instability in third countries and trans-border threats.
- Macro financial Assistance (MFA, €791 million, 2007-13): promoting macroeconomic stabilisation and structural reforms.

Non-EU budget

- European Development Fund (EDF, €22.7 billion, 2008-2013): Africa, Caribbean and Pacific and Overseas Countries and Territories.

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9 Annex II Implications of changing indicators

The OECD DAC donors are currently engaged in reassessing the scope and direction of ODA, as criticisms point towards a growing momentum to reform the concept of ODA. In 2012 the OECD DAC began officially reconsidering how accurately the ODA concept fits with what its members consider to be official support towards development countries. Criticisms vary, but those relevant to the financialisation of aid, pertain to not including sufficient coverage of other 'development cooperation providers' and of not accurately covering the contemporary scope and scale of funds made by donors to developing countries. These are broader than the narrow definition of aid, include equity, non-concessional loans, guarantees and other, which all lie outside the current definition of ODA. While concerns exist about how a reform to the concept and measurement of ODA may blur the identification between private and public flows, work is being done to both modernise the ODA concept as well as create a measure for capturing all development finance. The aim of these efforts is to have a new measurement system in place by when the FFD conference takes place next year.

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10 Annex III Acronyms

ACP	African, Carribean and Pacific Group of States
DCI	Instrument for Development Cooperation
DEVCO	European Commission department EuropeAid - Development and Cooperation
DFID	Department for International Development
EDF	European Development Fund
EEAS	European External Action Service
EIB	European Investment Fund
MDG	Millennium Development Goals
MFF	Multi Financing Framework
OCT	Overseas Countries and Territories
ODA	Overseas Development Assistance
OOF	Other Official Flows
SDG	Sustainable Development Goal

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Financialisation, Economy, Society and Sustainable Development (FESSUD) is a 10 million euro project largely funded by a near 8 million euro grant from the European Commission under Framework Programme 7 (contract number : 266800). The University of Leeds is the lead co-ordinator for the research project with a budget of over 2 million euros.

THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

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THE PARTNERS IN THE CONSORTIUM ARE:

Participant Number	Participant organisation name	Country
1 (Coordinator)	University of Leeds	UK
2	University of Siena	Italy
3	School of Oriental and African Studies	UK
4	Fondation Nationale des Sciences Politiques	France
5	Pour la Solidarite, Brussels	Belgium
6	Poznan University of Economics	Poland
7	Tallin University of Technology	Estonia
8	Berlin School of Economics and Law	Germany
9	Centre for Social Studies, University of Coimbra	Portugal
10	University of Pannonia, Veszprem	Hungary
11	National and Kapodistrian University of Athens	Greece
12	Middle East Technical University, Ankara	Turkey
13	Lund University	Sweden
14	University of Witwatersrand	South Africa
15	University of the Basque Country, Bilbao	Spain

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